Office of the Attorney General
Washington, D. C. 20530

MEMORANDUM TO: The Cabinet Council on Legal Policy

FROM: William French Smith
Attorney General

SUBJECT: Antitrust Improvements to Enhance International Trade Opportunities

I. Discussion

The recent emergence of strong foreign competitors in numerous global markets, often with full government backing, makes it imperative that U.S. regulatory policies do not unnecessarily limit the flexibility of American business to respond to challenges and opportunities both here and abroad. The Department of Justice has examined the antitrust laws from this standpoint, and has developed a package of legislative proposals to improve the international competitiveness of American industry, to maintain U.S. leadership in research, innovation, and high technology, and to respond to economic policies of other nations without compromising our strong commitment to free international trade.

These proposals can be an important part of the Administration's "Trade Package" now being developed by the Special Trade Representative and the Cabinet Council on Commerce and Trade. This will be an opportune moment to seek modest but meaningful antitrust reforms that can help reverse unfavorable trends in recent U.S. international competitive performance.

II. Legislative Proposals

Four statutory amendments are proposed for submission to Congress:

1. Amendments to Section 4 of the Clayton Act to provide for actual damages, rather than punitive treble damages, with regard to potentially procompetitive activity analyzed under the rule of reason, such as joint research and development.

Mandatory trebling of antitrust damages (the long-standing rule) may usefully deter per se antitrust violations -- categories of conduct deemed so likely to injure competition that they merit being deemed illegal without inquiry into competitive effect in every case (for example, price-fixing among direct competitors). However, the threat of mandatory trebling for non-per se violations discourages conduct that would improve productivity and benefit consumers, such as joint research ventures, because of uncertainties in antitrust law. Business planners cannot rely with certainty on government enforcement policies to avoid the threat of treble damages, since public enforcement authorities have no control over ill-advised private antitrust litigation. Moreover, because of the evolving and often uncertain character of antitrust law it is fundamentally unfair to impose mandatory treble damages in all cases. This undesirable result could be precluded by the proposed statutory change.

2. Amendments to the Clayton Act to require the courts to scrutinize technology-licensing agreements under the rule of reason in antitrust cases.

The ability to license proprietary technology encourages innovation, by permitting the intellectual property holder to match his own knowledge and other advantages with those of his licensees, and by allowing the intellectual property holder to utilize his property in the way he deems most effective. Despite these efficiencies, courts have sometimes condemned licensing practices under the antitrust laws without consideration of their basic procompetitive nature and purpose. Our legislative proposals would rectify this situation, by requiring the courts to weigh the pro-competitive purposes of such agreements rather than applying rules of per se illegality.

3. Amendments to the patent and copyright laws to require the courts to find actual harm to competition before denying enforcement of exclusive rights granted under the patent and copyright laws.

In circumstances where a patentee's or copyright holder's behavior is said to be a "misuse" of the patent or copyright, courts have refused to enforce the inventor's exclusive rights, thus allowing free use of the invention and destroying the value of the intellectual property. The misuse doctrine, which is based on the erroneous premise that certain practices invariably are anticompetitive, can seriously retard innovation and efficiency. Accordingly, existing patent and copyright law should be amended to assure that the competitive effects of potentially beneficial practices are judged on a case-by-case basis.

4. Amendments to patent law to give process patent holders the same ability to protect their domestic markets from off-shore infringement as the owners of product patents.

Under current law, a firm cannot avoid infringement of a product patent by manufacturing the product overseas and then importing it into the U.S., because the use or sale of the product in the U.S. would infringe the patent. In contrast, there is no law that the holder of a process patent can use to stop a firm from practicing the process patent overseas, and then selling the product made by that process in the U.S. This inequitable disparity of treatment discourages innovation in the process patent area. It follows that patent law should be amended to accord the same protection to process patent holders as is currently enjoyed by product patent holders.

III. Recommendation

The Administration should endorse for submission to Congress as part of the Administration's "Trade Package" the trade-related antitrust reform proposals described herein, subject to consultation by the Attorney General with the relevant committees of the Congress to assure the most effective and expeditious legislative consideration of these proposals.